

REPORT OF
TARGET MARKET CONDUCT EXAMINATION
OF
SUN LIFE ASSURANCE COMPANY OF CANADA
(US)
WILMINGTON, DELAWARE
AS OF
DECEMBER 31, 1996

The Honorable Mike Kreidler
Washington Insurance Commissioner
Insurance Building
PO Box 40255
Olympia, Washington 98504-0255

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010, I have examined the corporate affairs and market conduct of:

Sun Life Assurance Company of Canada (US), NAIC #79065
100 W. 10th Street
Wilmington, DE 19801

hereafter referred to as "the Company" or Sun Life (US).

Scope of Examination

The examination was performed in compliance with the provisions of Washington insurance laws and regulations. The market conduct review followed the rules and procedures promulgated by the Office of the Insurance Commissioner (OIC) and the National Association of Insurance Commissioners (NAIC). The examination covered the period of January 1, 1992 through December 31, 1996. The scope of this examination was limited to Marketing and Sales Practices, Complaint Handling and Replacement Activity.

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EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with the Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by Leslie A. Krier, Alan A. Hudina, and Nancy L. Barnes, who participated in the preparation of this report.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This target market conduct examination report is by exception and additional practices, procedures and files subject to review during the examination were omitted from the report if no improprieties were indicated. Throughout the report, where cited, RCW refers to the Revised Code of Washington and WAC refers to the Washington Administrative Code.

SCOPE

SITUS

This examination was a Level Two Target Market Conduct Examination. It was conducted both in the Seattle OIC office and at the company's office in Boston, Massachusetts.

TIME FRAME

The examination covered the Company's operations for the period January 1, 1992 through December 31, 1996.

METHODOLOGY

Sampling Standards

In general the sample for each test utilized in this examination falls within the following guidelines:

92% Confidence Level
+/- 5% Tolerance

REGULATORY STANDARDS

Samples are tested for compliance with standards established by the OIC. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as "met." The standard for agent licensing and appointment is not met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards, which look for the existence of written procedures, or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the Company follows established procedures.

HISTORY OF THE COMPANY TERRITORY OF OPERATIONS MANAGEMENT

Sun Life Assurance Company of Canada (US) was admitted to the State of Washington on August 29, 1924. Sun Life (US) is a wholly owned subsidiary of Sun Life Assurance Company of Canada. The Company is licensed in 48 states, (excluding New York and Vermont). The Company is also licensed in Puerto Rico and the District of Columbia.

Sun Life (US) is licensed for life and annuity products in Washington. Their taxable premium volume in 1996 in Washington was \$18,318,325. The Company had 2,137 policies issued in Washington during the exam period. As of the examination date they had 1,150 agents licensed in Washington.

A Board of Directors governs the Company. The members of the board are:

Donald A. Stewart
James A. McNulty III
M. Colyer Crum
David D. Horn
S. Caesar Raboy

C. James Prieur
Richard B. Bailey
Gregory W. Gee
Angus A. MacNaughton

For operations in the State of Washington, the administrative records were located in five (5) locations. Two (2) of these were warehouse storage facilities in Waltham and Northborough, Massachusetts, one (1) was the processing center in Boston, one (1) was the executive offices in Wellesley Hills, Massachusetts and the other was at the mainframe policy administration computer facility in Willowdale, Ontario, Canada.

Policy records for the exam period are stored in three (3) different formats: paper, microfilm and on the Company's policy administration computer systems. The Company uses two (2) computer systems for policy administration: The Variable Annuity (VA) System, which was internally developed, and the Advanced Life Insurance System (ALIS).

Affiliates and Subsidiary Companies

There are no affiliates or subsidiary companies whose operations are within the scope of this examination.

MARKETING PLAN

The Company provided marketing plans for each of the five (5) years covered by this examination. Common themes throughout the plans included: proposed revisions in the tax treatment of annuities, the entry of banks into the market place, wirehouses using

proprietary products and redesign of the Company's service center. There were no references to vanishing premium policies, replacement or exchange programs, nor any other indicators of possible churning activities.

STANDARD 1 - The Company's marketing plan does not contain references to vanishing premium policies, replacement programs, exchange programs, or other indicators of possible churning activities.

RESULT: The Company met this standard.

ADVERTISING FILE/ILLUSTRATIONS

Advertising

The Company's advertising file was reviewed pursuant to WAC 284-23-090. The advertising file contained all advertising materials as statutorily defined. Originally, the Company provided a syllabus showing 1,930 pieces of material which represented the combined advertising files of Sun Life (US) and Sun Life of Canada. The Company was asked to specifically identify which pieces related to which company. The Company responded that 261 pieces related to Sun Life (US). Twenty-two (22) items were selected for review. The items were selected based upon the examiners' perception of relevance to the scope of the exam. Of these 22 items reviewed, none were found to have compliance issues.

The Company does not allow agents under any circumstances to publish anything concerning the policies or the business of the Company. Agents may not advertise or issue circulars of any kind, unless first submitted to, approved and authorized in writing by the Company's Publications Committee. This committee is comprised of representatives from the Law, Compliance, and the Public Relations Departments.

The Company was unable to provide any formal, written audit reports for the examination period. However, discussions with Company personnel indicate that a variety of training and compliance visits occurred during the examination period. Home office personnel periodically visited with the independent distributors that had contracted to sell their products. These visits included discussions of a variety of matters, including product training, marketing, advertising, regulatory compliance, and business plans.

STANDARD 2 – All agent or vendor produced training materials were controlled by the Company and that the Company actively audited use of these materials.

RESULT: Although the Company could not provide formal audit reports, the Company has demonstrated that they met this standard.

Illustrations

The Company was asked to provide copies of the illustration software used during the exam period. The Company responded that it did not use “policy illustrations in connection with the marketing of its variable annuity products.” As the Company also had a fixed annuity product, the Company was then asked to provide a copy of the illustration software used for the fixed product. The Company responded “The Company did not apparently use sales illustration for the fixed annuity products.” As no software was available nor apparently used in the sales process, no tests were performed as part of this examination.

Due to system archive limitations, contract pages were not provided with the policy files and therefore were not available for review relative to the presence and adequacy of disclaimers relating to guaranteed versus projected values.

STANDARD 3 – The advertising file contained copies of all advertising material as statutorily defined, including copies of agent created advertising material, WAC 284-23-090 and WAC 284-23-020.

RESULT: The Company met this standard.

STANDARD 4 – Advertising materials complied with Washington Advertising Regulations, WAC 284-23-010 through WAC 284-23-080.

Number of advertisements	261
Number of advertisements reviewed	22
Number in violation	0
Percent in violation	0% (within 5% tolerance limit)

RESULT: The Company met this standard.

AGENT ACTIVITY

Training Bulletins

The Company provided a listing of 42 items identified as “Field Memoranda/Bulletins.” From these 42 items, 12 were chosen for review based upon the examiner’s perception of relevance to the scope of the examination. Topics included the Company’s Code of Business Conduct, the Company’s policy against churning and replacement business, advertising regulations, and the need for Company approval of any agent-produced material. Additionally, the Company stated that “a registered broker/dealer affiliate of the Company would have generated securities-related training materials for those career agents registered as representatives of the broker/dealer firm.”

STANDARD 5 - Agent communications did not encourage replacement of existing internal or external policies, special funding programs or other indicators of churning activity.

RESULT: The Company met this standard.

Audits

The Company was unable to provide any formal, written audit reports for the examination period. However, discussions with Company personnel indicate that a variety of training and compliance visits occurred during the examination period. Home office personnel periodically visited with the independent distributors that had contracted to sell their products. These visits included discussions of a variety of matters, including product training, marketing, advertising, regulatory compliance, and business plans.

STANDARD 6 – The Company conducted regular audits of agent activities through regular branch or agency office audits and visits.

RESULT: Although the Company could not provide formal audit reports, the Company demonstrated that they met this standard.

Agent Training Materials

In addition to the 42 items noted above, the Company also provided a list of five (5) Procedures Guides and 26 pieces of Marketing and Training Material. Four (4) of the five (5) procedure guides were reviewed. Six (6) pieces of marketing and training material were also selected and reviewed. There were no references in the materials that would encourage replacement of existing policies or special funding arrangements.

STANDARD 7 – Training material for both new and existing agents in use during the examination period complied with Washington Statutes and Regulations, WAC 284-23-010 through WAC 284-23-130.

Total Number of Training Materials	73
Pieces reviewed	22
Pieces not in compliance	0
Percent not in compliance	0% (within 5% tolerance limit)

RESULT: The Company met this standard.

Agent Contracts

The Company provided eight (8) agent contracts. There were contracts for the following classifications: Sales Operations and General Agent (GA) Agreement, Broker/Dealer Supervisory and Service Agreement, GA Agreement, Sales Representative Agreement,

Interim Sales Representative Agreement, Branch Managers Agreement, Sales Managers Agreement and Brokers Agreement. The Company also provided each agreement's compensation schedule. Nothing in the compensation schedules contained language that would tend to encourage internal replacements. All surrenders, conversions and replacements require commission adjustments, as do withdrawals within specified time limits.

STANDARD 8 – Agent contracts and commission schedules did not contain language that encourages internal replacements.

RESULT: The Company met this standard.

WASHINGTON AGENT OVERSIGHT & DISCIPLINARY ACTIONS

The Company provided three (3) sets of Disciplinary Action procedures, one set for each of its agent types. For the Career Agency System, agent conduct has been addressed in the Agency Management Guide, the Field Compliance Manual and the Code of Business Conduct. All set forth and review Company policy with regards to appropriate actions and conduct. The Field Compliance Manual outlines sanctions that include: counseling, warning, letter of reprimand, fines, probation, suspension and termination. The Field Compliance Manual also outlines what steps will be taken to investigate suspected violations and indicated that a determination of the severity of the violation will be made and a determination of the applicable sanction made. Both the Agency Management Guide and Field Compliance Manual outline in detail actions that are considered inappropriate; however, they do not specify the procedures by which sanctions would be applied.

The Independent General Agency is vested, by Company contract, with supervisory duties for brokers appointed with the Company through the General Agency. The General Agency is required to follow the same procedures as outlined in the above referenced publications.

National Accounts, the investment firms and banks authorized to market the Company's products, were responsible for their representatives engaged in the sales of the Company's products. "The Company did not have formal agent disciplinary procedures with regard to the representatives retained by the national account firms. Pursuant to the terms of the sales agreement, the Company retained the right to cancel the appointment of individual representatives of the national account firms."

When asked if the Company had an Ethics Review Board or similar entity the Company responded "The Company does not have an Ethics Review Board per se. Pursuant to the Company's Code of Business Conduct...the Company has established a process providing for the reporting of ethics related matters to personnel in our human resources, law and audit departments."

The Field Compliance Manual also references internal monitoring procedures, an Internal Audit Department to review and monitor Company operations and field office visits. Individual departments were also to “establish monitoring procedures to measure their own compliance performance...” When asked for the specifics of these programs and the results of the monitoring efforts the Company response indicated that these policies and practices were implemented outside the time period of the examination.

STANDARD 9 – The Company had and followed written procedures for disciplining agents and that actions were documented.

RESULT: The Company met this standard.

AGENT LICENSING & APPOINTMENTS

A random sample of 100 policy data files was reviewed to determine if the agent was both licensed and appointed at the time the application was written. The agent listed on the application was checked against the OIC’s agent licensing system to identify any licensing or appointment irregularities.

Two (2) agents were licensed but not appointed when seven (7) applications were written. These are violations of RCW 48.17.010 and RCW 48.17.160(1). RCW 48.17.010 defines an agent as any person appointed by an insurer to solicit applications for insurance on its behalf. RCW 48.17.160(1) defines the Company’s responsibility to appoint agents that represent the Company. The agents, policy numbers, and application dates are listed in Appendix A.

STANDARD 10 – Agents representing the Company had been licensed and appointed prior to soliciting applications on behalf of the Company, RCW 48.17.010 and RCW 48.17.160(1).

Number of policies issued	2,137
Number reviewed	110 (100 sample files plus 10 from company data)
Violations	7
Percentage	6.4% (0 tolerance)

RESULT: The Company did not meet this standard.

Subsequent Event: The Company states that, subsequent to the exam period, they have devoted significant time, resources, and attention to the subject of the timing of agent appointments. In 1997, new business and licensing department procedures were refined to ensure that the appointment status of agents submitting new business is verified prior to acceptance of the new business.

The Company reported that one agent had been terminated for “failing to comply with Sun Life policies and procedures.” This is consistent with OIC records.

STANDARD 11 – All agents that had been terminated for cause by the Company had been reported terminated to the OIC.

RESULT: The Company met this standard.

COMPLAINT HANDLING PROCEDURES/COMPLAINTS

The Company did not maintain formal complaint handling procedures during the exam period. When asked to provide a copy of their complaint handling procedures, the Company responded that “Prior to 1997, employees were periodically advised about their complaint reporting responsibilities, and the Company’s Law Department was responsible for recording and tracking complaints, and maintaining the Company’s complaint register. Other than the complaint registers themselves, however, we have been unable to locate much in the way of historical documents relating to Law Department procedures during the exam period.”

The Company did provide a memo dated June 19, 1995 from Compliance Services directed to All Teams indicating that “Effective immediately, all complaints that are received by the Service Center must be delivered to Compliance Services for review.” The reason indicated for this change was that “we must now log all complaints into our complaint log and distribute to (listed departments) once a month.” This memo, along with a page from the Company’s Code of Business Conduct which states “Any complaints should be dealt with in accordance with internal procedures established by various operating areas of the Company and applicable laws,” in combination with the Company’s complaint log constituted the Company’s response to the request for complaint handling procedures.

STANDARD 12 – The Company had and followed written complaint handling procedures.

RESULT: The Company did not meet this standard.

There were three (3) complaints against the Company during the examination period. Based on this number, the data within the complaint register itself was used to identify any trends. In addition, the Law Department distributed monthly complaint reports to senior management with an emphasis on root cause analysis.

STANDARD 13 – The Company monitored complaint records for trends, and had a formal procedure for reporting trends to management.

RESULT: The Company met this standard.

Subsequent Event: The Company's complaint handling procedures have been refined since 1997. More sophisticated procedures are now in place to ensure timely handling. A cross-functional committee comprised of representatives from compliance, customer service, and legal review complaints on a regular basis. Standing weekly meetings are scheduled. This cross-functional committee is responsible for complaint resolution and complaint prevention.

The Company's complaint log listed three (3) complaints during the exam period. Two (2) of the complaints involved the OIC. This figure agrees with OIC records. Of the two (2) complaints involving the OIC, one (1) concerned claims handling and is outside the scope of this examination. The complaint files for the other two (2) complaints were requested and reviewed. The complaint that the Company received from the OIC involved the client's perception of a delay in the transfer of funds via a 1035 exchange from Sun Life to a new company. The second complaint, which came directly from the consumer, involved a client who apparently did not realize that taking loans from a contract would adversely affect the policy's ability to pay premiums from dividends and cash value. Both complaints were resolved in 15 working days or less.

STANDARD 14 – The Company responded to OIC complaints within 15 business days (WAC 284-30-650) and showed good faith in resolving complaints within 15 business days.

Total number of OIC complaints	2
Policy files reviewed	1
Number outside of 15 day turnaround	0
Percent outside of 15 day turnaround	0 (within 5% tolerance limit)

RESULT: The Company met this standard.

REPLACEMENT PRACTICES

The Company provided a grid that indicated which states required what replacement forms and any exceptions to replacement rules; for example, some states excluded group contracts, others excluded annuities, etc. The required forms listed for Washington were correct. There were no home office processing procedures provided, and upon inquiry, none were apparently used. There were no procedures that would instruct the processors what to do in the event the proper forms were not included with the application, or any indication of a procedure to follow if either the agent's or applicant's replacement question were blank or the answers given by each conflicted.

Upon direct interview, a company representative indicated that if an answer was blank, a "call out" might be made to the agent for clarification or the answer would be presumed based upon other indications in the file. Amendments were not used. During the time frame of the examination, internal rollovers were not considered to be replacements. When the Company was asked to provide a copy of their replacement log, the Company

responded “We have reviewed our records and have been unable to locate documents responsive to this request.” Given the nature of this question the Company was asked to clarify its response. The Company’s clarification was “Although we have been advised that reports relating to replacement activity were generated during the examination period, we have been unable to locate copies of any responsive documents. It also appears that a new report tracking replacement activity was developed in or around 1995. Again, we have been unable, at this time, to locate copies of that report.” No replacement register was kept, which is in violation of WAC 284-23-455(3).

It should be noted that there is no provision in the Company’s replacement procedures that requires an amendment be obtained if the replacement question on the application is left blank. If the applicant’s replacement question on the application is left blank when the application is taken and the Company does not amend this to show the correct answer, it is a violation of WAC 284-23-450(2). This regulation states that a company must “Require with or as part of each completed application for life insurance or annuity a statement signed by the applicant as to whether such proposed insurance or annuity will replace existing life insurance or annuity.”

If the replacement question on the agent’s report is left blank, it is a violation of WAC 284-23-455(1). This regulation states that a company must “Require with or as part of each completed application for life insurance or annuity, a statement signed by the agent or broker as to whether he or she knows replacement is or may be involved in the transaction.”

A review of 100 randomly selected policy files from the Company **provided** database of policies issued during the exam period was conducted. Replacement was involved in 35 of the 100 files. The examiners believed the sample was an adequate number of files to provide an accurate representation to test replacement compliance. In the 35 replacement files, the following violations were noted:

- There were ten (10) contract files that did not contain a statement signed by the applicant as to whether or not replacement was involved. This is a violation of WAC 284-23-450(2).
- There were three (3) contract files that did not contain a statement signed by the agent as to whether or not replacement was involved. This is a violation of WAC 284-23-455(1).
- In thirteen (13) instances, the replacement notice was not completed at the time the application was taken. This is a violation of WAC 284-23-455(2)(a)(i).
- In thirteen (13) instances, a copy of the notification letter to the existing company concerning possible replacement of their policy was not kept in the file. This is a violation of WAC 284-23-455(2)(a)(ii).
- In three (3) cases, the Company did not mail letters to the existing carrier notifying of the possibility of replacement. This is a violation of WAC 284-23-455(2)(b).
- In one (1) contract file, the notification letter to the existing carrier was sent more than three (3) days after the Company had received the application.

- Thirty-five (35) files were not included on the Company's replacement register. Files that indicate replacement is involved would be checked against the Company's replacement log. As no log exists, this check cannot be conducted. This is a violation of WAC 284-23-455(3).

The violations noted are included In Appendix B.

STANDARD 15 – The Company's replacement procedures were in writing and were consistent with the Washington Replacement Regulations.

Code	Total Population	Sample Size	# of Violations	% of Violations
WAC 284-23-450(2) – Applicant's question	100	35	10	28.6%
WAC 284-23-455(1) – Agent's question	100	35	3	8.6%
WAC 284-23-455(2)(a)(i) – Notice completed at time of application	100	35	13	37.1%
WAC 284-23-455(2)(a)(ii) – Copy of notice maintained with file	100	35	13	37.1%
WAC 284-23-455(2)(b) – Letter	100	35	3	8.6%
WAC 284-23-455(2)(b) – 3 days	100	35	1	2.9%
WAC 284-23-455(3) – Register	100	35	35	100.0%

RESULT: The Company did not meet this standard.

Subsequent Event: The Company provided replacement procedures dated October 19, 2000 and January 9, 2001. The procedures were reviewed and are thorough and complete and compliant with Washington Replacement Regulations.

Monitoring Replacement Activity

Note: There is no legal limit as to the number of replacements an agent may write. However, replacements should be monitored by the Company to guard against excessive replacement, or churning. The threshold of "greater than one (1) per month" is used in this section of the examination solely for the purpose of testing Company oversight procedures.

As the Company did not maintain replacement registers, there were no logs to monitor for high levels of replacement activity by agents. Due to the Company's product distribution structure, the independent broker/dealer firms were entrusted with this task. However, it is ultimately the Company's responsibility to monitor the activities of those entities that represent the Company, regardless of federal securities laws and NASD rules regarding replacement activity.

STANDARD 16 – Number of replacements for any one agent in any calendar year should not be significant (<1 per month, combined internal and external replacements).

RESULT: The Company did not meet this standard.

STANDARD 17 – The Company had identified patterns of replacements by individual agents such as moving policies in and out of the Company at regular intervals, replacements of large blocks of business, moving funds from one policy to another.

RESULT: The Company did not meet this standard.

Subsequent Event: Sun Life is currently exploring avenues that data can be shared with the NASD in order to assist their independent broker/dealer firms with adhering to these standards.

POLICY FILE REVIEW

The number of Washington policies in force as of 12/31/96 was 3,577. The total number of policies issued in Washington from 1/1/92 to 12/31/96 was 2,137. From the total of 2,137 issued policies, 100 policy files were selected at random and requested from the Company.

The policy files were reviewed with emphasis on the following areas:

- Did both the applicant/owner and the agent properly sign the application?
- Was the agent appointed by the Company and licensed by the state when the application was signed?
- Was replacement of an existing contract involved and if so were the proper replacement forms completed? If an external replacement, was proper notification provided to the existing company?
- Were existing policy values used to pay the premium on the new policy?

The review of policy records did not indicate a pattern of old policies being used to fund new policies. The remaining specific findings of this review are incorporated into the sections of this report entitled Replacement Practices and Agency Licensing/Appointments.

REGULATORY ACTIONS BY OTHER STATES

A review of the disciplinary actions taken by other states within the last 5 years indicates two (2) actions. These actions are summarized below.

- 1) State of Massachusetts, 1996 – The Company paid a fine in the amount of \$107,800 and an administrative reimbursement in the amount of \$100,000 to the Commonwealth of Massachusetts for marketing and selling variable life and variable annuity products without proper licensing authority.
- 2) Puerto Rico, 1999 – The Company paid a fine of \$9,000 for failing to resolve 20 claims within the specified time to do so.

SUMMARY

Since the examination period of 1992 – 1996 was a number of years ago, the Company did encounter some difficulty in producing documentation in certain instances. In addition, producing requested information was made more difficult by the fact that the Company has undergone substantial staffing changes at the supervisory and mid-management levels. However, the Company's candor and cooperation during the examination was instrumental in understanding the growth of the Company and the Company's desire to meet compliance standards.

During the examination period, the Company relied heavily upon the oversight of its independent broker/dealers. Realizing the need to maintain control over day-to-day business operations, the Company began strengthening its compliance efforts by implementing more focused procedures.

In addition, subsequent to the time frame of this examination, the Company appears to have strengthened their written procedures. If a current exam were to be done, one would hope that the current practices would be consistent with the currently documented procedures.

INSTRUCTIONS

- 1) The Company is in violation of RCW 48.17.010 and RCW 48.17.160(1) and is instructed to make certain all agents are licensed and appointed by the company with the State of Washington prior to soliciting applications on behalf of the company. (Page 11).
- 2) The Company is in violation of WAC 284-23-455(3) and is instructed to maintain a replacement register. (Page 15).
- 3) The Company is in violation of WAC 284-23-455(3) and is instructed to change its procedures to make certain all replacement business is entered on the Company's replacement register. (Page 15).
- 4) The Company is in violation of WAC 284-23-450(2) and is instructed to "Require with or as part of each application for life insurance or annuity a statement signed by the applicant as to whether such proposed insurance or annuity will replace existing life insurance or annuity." (Page 15).
- 5) The Company is in violation of WAC 284-23-455(1) and is instructed to "Require with or as part of each completed application for life insurance or annuity, a statement signed by the agent or broker as to whether he or she knows replacement is or may be involved in the transaction." (Page 15).
- 6) The Company is in violation of WAC 284-23-455(2)(b) and is instructed to change its procedures such that "written communication [to the existing company] shall be made within three working days of the date the application is received in the replacing insurer's home or regional office..." (Page 15).
- 7) The Company is in violation of WAC 284-23-455(2)(a)(ii) and is instructed to "Require...a copy of the replacement notice provided the applicant pursuant to WAC 284-23-440(2)(a). (Page 15).
- 8) The Company is in violation of WAC 284-23-455(2)(b) and is instructed to "Send to each existing insurer a written communication advising of the replacement or proposed replacement..." (Page 15).
- 9) The Company is in violation of WAC 284-23-455(2)(a)(i) and is instructed to make certain that the notice is completed no later than at the time the application is taken. (Page 15).

RECOMMENDATIONS

- 1) It is recommended that the Company maintain audit records demonstrating review of agent or vendor produced training materials. (Page 7).
- 2) It is recommended that the Company maintain audit records demonstrating review of agent activity through regular visits to their broker/dealers. (Page 9).
- 3) It is recommended that the Company place a complaint status sheet in each complaint file so that the progress of the complaint and its resolution may be tracked and reviewed without having to read each document in the file. (Page 12).
- 4) It is recommended that the Company monitor its replacement registers for any trends or patterns of replacement by an agent or agency. (Page 16).
- 5) It is recommended that the Company establish a practice of clearly date stamping the application when it is received in the home office. (Page 16).

APPENDIX A

AGENT LICENSING AND APPOINTMENT VIOLATIONS

AGENT #	POLICY #	APPLICATION DATE	LICENSED	APPOINTED
Winder, Kevin M.	5500328759	10/17/96	yes	no
Beard, W.D.	7600066868	5/5/93	yes	no
	7600066902	5/5/93	yes	no
	7600066939	5/5/93	yes	no
	7600066840	5/10/93	yes	no
	7600066966	5/10/93	yes	no
	7600066975	5/10/93	yes	no

APPENDIX B
REPLACEMENT VIOLATIONS

Code/Description	# of Violations	Policy Number(s)
WAC 284-23-450(2) – Replacement, Submit statement signed by applicant.	10	05500281530, 05600088249, 07600016191, 07600051115, 07600070087, 07600166144, 07600245041, 07700088003, 07700326121, 7700629544
WAC 284-23-455(1) - Replacement, Submit statement signed by agent.	3	05500138036, 07700326121, 07700444155
WAC 284-23-455(2)(a)(ii) - Replacement, Require copy of replacement notice.	13	07600124216, 07600245041, 07600351826, 07700073901, 07700142873, 07700326121, 07700445323, 07700501459, 07700502957*, 07700527280, 07700664292, 07700710777, 7700727590
WAC 284-23-455(2)(b) - Replacement, Send notification to existing insurer.	3	05600088249, 07700073901, 07700263509
WAC 284-23-455(2)(b) - Replacement, Send notification within 3 working days.	1	7700727590
WAC 284-23-455(3) - Replacement, Maintain replacement register.	35	05500153349, 05500247178, 05600088249, 07600124216, 07600166144, 07600245041, 07600313707, 07600351826, 07700016536, 07700073901, 07700120511, 07700142873, 07700184774, 07700206956, 07700263509, 07700326121, 07700355198, 07700355223, 07700397054, 07700413839, 07700445323, 07700478804, 07700501459, 07700502957, 07700506061, 07700521133, 07700527280, 07700592583, 07700607096, 07700644162, 07700660296, 07700664292, 07700710777,
* Notice dated after date of application.		07700722416, 07700727590